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ANNUAL REPORT OF THE POSTMASTER GENERAL

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BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

NINETY-NINTH CONGRESS

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CONTENTS

Opening statements: Page

Senator Stevens 1

Senator Gore 2

WITNESSES

FRIDAY, SEPTEMBER 27, 1985

Hon. Paul N. Carlin, Postmaster General, accompanied by William Cummings, Senior Assistant Postmaster General for the Finance Group, and Charles Clauson, Chief Postal Inspector:

Testimony 3

Response to written questions submitted by Senator Stevens 30

Responses to written questions submitted by Senator Heinz 30

ANNUAL REPORT OF THE POSTMASTER GENERAL

FRIDAY, SEPTEMBER 27, 1985

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The committee met at 10:33 a.m., in room SD-342, Dirksen Senate Office Building, Hon. Ted Stevens presiding.

OPENING STATEMENT OF SENATOR STEVENS

Senator STEVENS. Let me welcome you this morning, Mr. Postmaster General, and your lovely wife, who I see is here, Mrs. Carlin. Nice to have you with us.

We are here this morning to comply with Federal law which requires the Postmaster General to personally report to Congress each and every year on the status of the Postal Service. We have the comprehensive statement submitted on January 15 of this year regarding the operation of the Postal Service during the previous year.

Because the Postmaster General took office on January 1, we felt it prudent to give him some time to take charge of the Postal Service, to really get hold of the reins of authority and assume the responsibility of this office so that Congress could have a meaningful report on what has transpired in the Postal Service.

Mr. Postmaster General, your Service is one of the most intriguing and most vital and yet most misunderstood entities of our Nation. If it were one of the Fortune 500 companies, it would rank second. The Postal Service is the largest employer in the Nation, in either the private or public sector, and the work force constitutes one-quarter of all the nonmilitary Federal employees.

There are other statistics I could cite, but the bottom line is that the U.S. Postal Service is an integral part of the infrastructure of our Nation, and its value to the well-being of all Americans is literally beyond comprehension.

We are anxious to hear about the widely publicized $\$1\frac{1}{2}$ billion deficit that was staring us in the face. We are also interested in learning how the Postal Service has complied with the need to promptly and efficiently deliver our Nation's mail and parcels. We are anxious to know what you see in terms of future problems for the Postal Service, such as the private competition or the private electronic mail delivery.

In short, Mr. Postmaster General, we are anxious to hear your report.

This is the first time you have been before us. We look forward to a good working relationship with you in the years to come. I have enjoyed the personal relationship that you and I have had in the past.

I will yield to my friend if he has an opening statement.

OPENING STATEMENT OF SENATOR GORE

Senator GORE. Thank you very much, Mr. Chairman. I, too, want to welcome Postmaster General Carlin to these hearings, and to congratulate you, Mr. Chairman, and thank you for convening these timely and important hearings.

I am interested in the functioning and performance of the Postal Service as a whole; I am interested in hearing the Postmaster General's comments on the whole range of policy.

But I have had a particular interest in one aspect of postal policy, and that is the Postal Inspection Service. I would like to direct a few opening comments to that subject. In preparing for these hearings, my staff and I have been in touch with the Postmaster General's staff requesting information and making known to them concerns that I have about the Postal Inspection Service, and I look forward to asking questions about it.

The Postal Inspection Service has had a long and distinguished history as a top-ranked Federal law enforcement agency. This tradition dates back to the early years of our country, particularly after the reconstruction era, when the fraud cases really began to mount and the Postal Inspection Service was organized. It began a tradition of excellence. It has always, until recently, been known as one of the very best law enforcement agencies that this country has.

They have had recent successes in battling organized crime, pornography, and terrorists, as well as just watching out for the average citizen's mail.

But in the last few years, something has happened. There has been a drastic decline in many facets of the Inspection Service's record during the last 5 years. I am concerned about it.

I think the controversies and criticisms about the Service can be pinpointed to two policies that have been in existence for the last 5 years, and these policies have led, Mr. Chairman, to a decline of convictions by the Postal Service of 73 percent, a 73-percent decline from fiscal year 1978 to fiscal year 1984; a decline in the number of investigations that have been completed over the same period of time of 90 percent; as well as a decline in mail fraud convictions of 53 percent.

These are figures which cannot be ignored. I think they are the result of the two policies I referred to a moment ago: the first is the so-called career paths policy that was originated in 1980 with some lofty-sounding goals.

But this arbitrary and disastrous personnel policy has only served to discriminate and inflict hardship on individuals who have devoted their careers to the Inspection Service. It has driven valuable employees from public service and deprived citizens in small cities and rural areas, like many areas in Tennessee and Alaska, of quality law enforcement.

Perhaps the most positive note to this hearing will be, hopefully, to hear from the Postmaster General on what will be done about this policy.

The second policy was the concurrent and related decision to shift priorities and capriciously ignore crimes that didn't have a tendency to make the newscasts, and focus instead on crimes in large cities. I don't fault a decision to put a priority on crimes that have an impact on a lot of people.

But I think that it is indefensible to have an almost de facto legalization of check theft if only one or a small number of people are involved.

Finally, Mr. Chairman, I look forward to reviewing, in this hearing, a recently released internal report from the Inspection Service which, among other things, has determined that the Service faces a perception that the PIS is withdrawing from its established role as a front-line Federal law enforcement agency.

Again, while I will be focusing on questions related to the Postal Inspection Service, I look forward to covering some other topics, as well.

Thank you, Mr. Chairman.

Senator STEVENS. Thank you.

Mr. Postmaster General, we are pleased to hear from you.

TESTIMONY OF HON. PAUL N. CARLIN, POSTMASTER GENERAL, ACCOMPANIED BY WILLIAM CUMMINGS, SENIOR ASSISTANT POSTMASTER GENERAL FOR THE FINANCE GROUP, AND CHARLES CLAUSON, CHIEF POSTAL INSPECTOR

Mr. CARLIN. Thank you very much, Mr. Chairman, Senator Gore, and thank you for your consideration in giving me a chance to get my feet on the ground before I appeared before your committee.

Mr. Chairman, the Postal Service annually has this opportunity to report to you and the public on the current status of the Nation's postal system. Today, in my first appearance as Postmaster General, I am happy to report that the Postal Service is in good condition and that, while we have some stiff challenges to meet, the future does look promising.

I am particularly pleased to be able to make this statement considering the difficult year that the Postal Service has just experienced. An unprecedented series of obstacles caused our service performance to slip and our budget to shift out of balance. But through the efforts of postal people at every level in the organization, we have met those problems head on and we are beginning to see some positive results.

In what I believe is a strong turnaround, service performance is on the upswing and our budget is being brought under control.

I want to go over these critical areas of service and finance in a little bit more detail and then touch on the status of a couple of other programs: the ZIP+4 codes and automation and the progress we are making in equal employment opportunity and safety.

In service performance, over the past year, the Postal Service has rededicated itself to a single overriding goal: to provide our customers with the reliable, friendly, and economical services that they expect and deserve for the postage that they pay us. In meet-

ing this commitment, we have successfully overcome the hurdles we faced this past year—hurdles like the sunset of the Civil Aeronautics Board and the advent of airline deregulation, constantly changing airline schedules, the discontinuance of the overnight air freighter service, and the merging of second-class mail into the preferential mail network. All of these changes have posed challenges which our people have had to meet during the year and solve.

Postal people at all levels responded to these challenges with commitment and professionalism and the results have been a strong service rebound.

Despite these obstacles, our service today has steadily improved from the low point we experienced in accounting periods 4 and 5—the months of January and February of this year. Service results, which we track closely on a 4-week accounting period basis, show that national service for express mail, first-class mail and parcel post are at least at the same levels as last year with one exception. In a number of areas, we have surpassed last year's service results for the same period.

While our service performance report is very positive, there are some problem areas where service is not as good as it should be, and we continue to work on those problem areas.

To ensure that our managers have the latest data, we provide accounting period summaries on service to our Postal Career Executive Service management team. As part of these service reports, we frequently provide information to postal managers on problem areas so that prompt corrective action can be taken.

Each quarter we also provide a service report to the Board of Governors which outlines the performance for first-class mail, express mail, and parcel post.

Let me share data from the accounting period which ended on August 30 in a little bit more detail. Our overnight first-class mail service for stamped and metered mail held steady at 96 percent for stamped and 91 percent for metered, respectively. Those are the same service levels that we were meeting 1 year ago.

Our second- and third-day stamped first-class mail performance is two points over what it was last year, and 2- and 3-day metered mail service equals last year.

Our express mail service continues to improve steadily from the problem period that we had in accounting periods 4 and 5. Our national performance for accounting period 12 was 94 percent, slightly better than where we were 1 year ago. We attribute this improvement to increased management attention at all levels focusing on improving problem areas.

For parcel post, our intra-BMC performance was 78. That was the same as last year and the same as the previous accounting period. Our inter-BMC performance was slightly below the same accounting period last year. Incidentally, this was the first time in 20 accounting periods that we did not do better than we had the previous year.

In analyzing the problems, we found that that setback was attributable to some heavy construction taking place in several bulk mail centers.

In summary, we have experienced some service difficulties during this fiscal year. But more importantly, postal people have responded to these challenges and service has rebounded. While I am proud of how quickly our field managers responded and I am happy about these performance trends, I know there is still room for continued improvement. In this regard, we intend to achieve more improvements as we continue to strive to provide the most reliable, friendly and economical service that we can.

Turning to the area of financial performance, the price of delivering service and giving it the priority it deserves has been a costly one, and our financial books show it. Early last spring, we were looking at a projected budget deficit of nearly three quarters of a billion dollars. This was not good news, particularly in the first year of a rate cycle, a time when we should be doing very well.

Much of our budget problem stemmed from the fact that our operating expenses were exceeding expectations. Since our unduly high operating costs were principally a management problem which were amenable to a management solution, the responsibility for turning the situation around was placed squarely on the shoulders of our managers at headquarters, in the regions, and throughout the country. To their credit, they did not accept the inevitability of this large volume of red ink. Instead, they joined together in waging a strong battle of the budget.

That battle has begun to show good results. For accounting period 12—again, that is the period which ended on August 30—the Postal Service operated in the black with a net income of $7.2 million. This compares quite favorably to the projected loss of $84 million that we had anticipated for that same 4-week timeframe. Salaries and benefits have dropped from a high of $79 million over plan in accounting period 6, which is the month of March, to $28 million under plan in accounting period 12.

Furthermore, our overtime has been reduced to 4.6 percent of total work hour usage. By way of comparison, for 4 months of this year it was running between 10 and 11 percent. Actual overtime for employees dropped dramatically. It was about 50 percent lower than it was 1 year ago.

These figures give us reason to be cautiously optimistic. When the final figures for the last accounting period of fiscal year 1985, which ends today, come in, we expect to find the projected deficit of some three quarters of a billion dollars has been whittled down to some $323.7 million, which is the end-of-year estimate through accounting period 12. This is the first time in our organization's history that we have managed to substantially reduce costs and in the same timeframe we were reducing costs, to improve service.

I believe we will now begin to enter a very positive posture as we enter fiscal year 1986. Although a significant deficit was forecast for this year, the regional postmasters general and headquarters have submitted break-even budgets, and they have been approved.

ZIP+4 codes and automation make up our future. We will concentrate on improving productivity as a means of holding the line against rising costs, which ultimately translate into higher postage rates. We expect to be greatly aided in these efforts by innovative programs such as ZIP+4 codes and the interrelationships with automation. These related efforts promise to provide the Postal Serv-

ice with the most important single means of improving productivity over the foreseeable future.

We will soon take a first step to increase the near-term automation-related savings by initiating action for the competitive testing of multiline optical character readers. These are machines that are designed to read an entire address and then, after searching the computerized internal directory, determine the ZIP+4 code for that address and print a related bar code for later sortation.

We also intend to seek an increased rate incentive, which we believe is warranted for precoded ZIP+4 mail. The marriage of ZIP+4 codes and multiline OCR equipment, if tests show performance up to our expectations, would aid the Postal Service in holding down the cost of postage.

Management philosophy. I place part of the credit for bringing about the recovery that we are currently experiencing on the concept of participatory management which is gradually taking hold in the Postal Service. The essence of that approach is to get everyone involved. It requires focusing the combined skills and brain power of the organization on the tough job of providing improved service economically and doing that in a friendly manner.

As Postmaster General, as only one individual, I don't have all the answers that we need. But I firmly believe that postal people collectively have the talent and ability that we need to provide consistent but good service at reasonable prices. We plan to continue to seek ways to tap more of the creative energies of our people in order to reach our organization's fullest potential.

This brings me to the subject of equal employment opportunity. EEO is not only the law of the land and the just way to operate, it is essential for taking full advantage of the human resources that are available in the Postal Service.

I believe we have a good EEO record, but it is not yet good enough. Today, minorities make up 28.6 percent of our total work force and minorities hold 23.9 percent of the supervisory and managerial positions that are EAS–15 and above. I use EAS–15 and above because that is the grade level for most of our initial level supervisors.

Women currently make up 27 percent of the total work force and hold 18.4 percent of the EAS–15 and above positions. In addition, over 20,000 of our postal people are handicapped.

We are seeking ways to ensure that minorities, women, and the handicapped have every opportunity to be represented appropriately at all levels of our work force. To enable us to accomplish this goal, our affirmative action programs are designed to assist individuals in developing the skills and strengths that they need so they can achieve their individual career goals. Our programs are also designed to eliminate any barriers that may stand in their way.

A major means of eliminating barriers is education. We are providing training for all of our managers and supervisors in EEO law, which includes both affirmative action and fair treatment of employees by supervisors and managers. We are also stressing the importance of EEO performance indicators, such as our promotion rates and work force makeup by grade levels, with respect to minorities and women.

To help improve these indicators, we recently sought to redirect the principal focus of our EEO specialists away from just handling complaint processing and toward affirmative action. This means they will be spending a major part of their time on career counseling and the identification of high potential minorities and women.

We have also established EEO executive committees throughout our management sectional centers, regions, and districts, as well as with the officers of the Postal Service. In every post office that has at least 200 employees, we have already established, or are in the process of establishing, an affirmative action evaluating committee. Each of these groups, including the executive EEO committee which I chair, meet on a regularly scheduled basis.

During those meetings, they assess, implement, and monitor projects and programs that are designed to move EEO and affirmative action into all parts of our organization. To broaden the movement of minorities and women into and through the senior management ranks, I have issued a six-point directive. Among those six points is a requirement that for every executive vacancy, at least one minority and one woman executive or candidate be given serious consideration.

By "serious consideration" I mean that at least one highly qualified minority and woman will be contacted to assess their interest. If they are interested, they will be interviewed and seriously considered for appointment to that vacant position.

In our Postal Career Executive Service candidate selection process—PCES is our equivalent of the SES in the rest of Government—each executive screening committee and each executive evaluation panel is going to include at least one minority and, to the extent possible, one woman. I have also directed that the office of EEO play a formal advisory role to our Executive Resources Board on minority and women's issues.

The ultimate goal of our efforts in this area is to foster an organizational culture based on a respect for the individual. We will assure that not only are members of the protected groups given fair and equitable treatment, but that they will be treated in the same manner as all other people expect to be treated.

Before turning to questions, I would like to make a few comments about the Postal Service's track record in the area of safety and health. As with many other areas in the Postal Service, our safety record is good and getting better. The accident rate has declined from 9.2 accidents per 200,000 work hours during fiscal year 1983 to 7.9 accidents this year through accounting period 12.

This same period has seen the injury/illness rate drop from 6.3 per 200,000 work hours to 4.7 and the lost workday injury frequency rate fall from 3.6 to 2.8.

Incidentally, that 2.8 is very comparable to industries in the private sector which are similar to the Postal Service.

Over the last 7 years, the total number of postal injuries has decreased by 34 percent and the lost workday injuries have been cut in half over that 7-year timeframe. That good safety record did not just happen by itself.

It is the result of a servicewide effort to make our organization a model of safety. Primary responsibility for safety, just like what we will be doing in equal employment opportunity, is placed on line

managers who set their own safety and health objectives and are responsible for providing their people with safe and healthful working conditions. We also have management health and safety committees, including an Executive Safety and Health Committee which I chair. These committees meet regularly to discuss safety and health initiatives and to establish safety performance goals.

In addition, we have throughout the organization about 1,350 labor/management safety and health committees that meet regularly to review safety and health suggestions and rules and to see that action is taken on various hazard reports that are submitted by individual employees. They also provide a forum for discussion of a variety of safety and health matters. There is union representation on these joint committees, and they participate in safety inspections and accompany management during investigations of serious accidents.

Committee members, all of them, receive training to assist them in carrying out their safety responsibilities.

In addition to those committee members, we also provide safety and health training for craft people, employee representatives, supervisors, managers, postmasters, and our safety and health professionals. During fiscal year 1984, more than 18,500 people participated in these safety and health training programs.

Mr. Chairman, that completes my statement, and I will be pleased to respond to questions that you have.

Senator STEVENS. Thank you very much. It is generally a positive report, Mr. Postmaster General. I am pleased to see the turnaround in the financial situation and learn that it is not as bad as we thought it would be.

In terms of your approach to the financial questions, do you think the turnaround is a lasting one?

Mr. CARLIN. I believe that it is. If you look back over the 15-year history of the Postal Service, we have, at times, handled service problems and resolved them by spending more money.

At other times throughout that history, we have faced some financial problems. In general, we handled those by allowing a deterioration in service.

This time, I think it is a significant point that we have not only turned our service performance around, but we also improved it and then we brought our budget back in line. We have never done that before.

The fact that it was done not by any edicts from Washington, but by managers spread throughout the organization taking a variety of approaches that met their local circumstances, is what gives me the confidence that this will continue.

The Postal Service, as I think about it, is much like an aircraft carrier. Once having been set on a course, it tends to stay on that course. I think the course is strong enough to give me the cautious optimism that rather than having a significant deficit in fiscal year 1986, we will achieve our target of operating on a break-even basis. But, that is a very, very challenging target for us.

Senator STEVENS. You borrowed some money in the past few months, did you not?

Mr. CARLIN. Mr. Chairman, at its last meeting, the Board of Governors approved the borrowing of up to $1 billion to pay for capital investments.

We have not borrowed money over the past 9 years. We have, during that timeframe, paid for our capital investments, both buildings and equipment, out of operating expenses. That is a practice which is virtually unheard of in the private sector.

We are adapting ourselves to the same practice as is followed in the private sector.

We will be going—we probably have already done this by now, it was sometime this week—to the Federal Financing Bank to borrow up to $1 billion. I think the final figure will be $970 or so million, which was the amount of our capital investments during fiscal year 1985.

Senator STEVENS. How long will those loans be for, do you know?

Mr. CARLIN. 25 years.

Senator STEVENS. Will that practice of paying for capital improvements over a period of time help the ratepayers?

Mr. CARLIN. Over time, it will. In effect, what we will be doing is, rather than having the ratepayers who are using the mail in that year pay for that investment, we will be paying for that capital investment over the timeframe when we are actually making use of it.

Let me clarify one thing: The borrowing of the $1 billion does not change or impact the operating deficit that we will experience this year. It does help in our cash flow.

Senator STEVENS. You have been paying all your capital costs on an annual income basis?

Mr. CARLIN. Yes, sir, for the last 9 years. We have outstanding, at the present time, debt of slightly less than $1 billion. We had borrowed until 1975 or 1976. As you know, in the Postal Reorganization Act there is a limitation on what we can borrow of $10 billion. No more than $2 billion in any 1 year, and no more than $½ billion of that shall be for operating expenses.

We are imposing on ourselves a continuing management discipline that we do not want to borrow in that manner to handle operating expenses. This is only for capital.

Senator STEVENS. Money you borrow will not be used for operating expenses, but rather all for capital costs, is that right?

Mr. CARLIN. All for capital costs, and the capital costs which were incurred, in this case, in fiscal year 1985.

Senator STEVENS. For a number of years I urged your predecessor, our good friend Postmaster Bolger, to create a separate postal district in Alaska. There were a lot of reasons for that. I don't need to go into those here and now, but in 1983, Postmaster Bolger did set up that separate district.

I would like to get on the record, if I could, how this district has performed in comparison to the other districts, the west in particular, in terms of meeting man-hour goals, productivity goals, delivery performance, and budget targets.

Do you keep that kind of information for each of these districts?

Mr. CARLIN. Yes, we do, Mr. Chairman. As you know, I and the members of the Board recently had the chance during our meeting in August in Alaska to see some of those operations first hand.

We can compare the Alaska district with its western region—we have five regions in the United States—which consists of the 13 Western States. The Alaska district had the highest service performance rating for 2-day originating and destining mail in that 13-State area.

It also had the best performance in its region in matching its total work hour usage to that contained in our plan. I think this is very important, as you look at our efforts to control our costs within the State of Alaska. Volume this past year has risen by 4 percent. We particularly have strong increases in parcel post in Anchorage and in Fairbanks.

The district has experienced an 89-percent increase in postal deliveries, and city delivery over this timeframe has been expanded to 10 additional cities. The link has now been completed with all of our air transportation hubs, allowing better carrier participation in hub-to-bush transportation. That fostered better relationships with and better service performance to the bush areas. This is the hub concept where we fly out and then interconnect. Those interconnections took a lot of working with postal people and with the carriers themselves. It is working smoother and smoother.

Senator STEVENS. And forming that new district has fulfilled our expectations as far as having really a local pride in the operation of the Postal Service in Alaska.

Mr. CARLIN. It makes it tougher in the western districts, out in the western region. It gives them a goal to shoot for.

Senator STEVENS. You are meeting your standards fairly well across the board on delivery of mail. Do you have any specifics about overnight, second-day and third-day service? I think the record ought to be clear about the quality of service at all levels and in all sections of the country.

Mr. CARLIN. I can provide it for the record, but let me give you just a summary in those categories. I can give you a summary broken out by the regions for the record.

I am talking about first-class stamped mail. Overnight, 96 percent; second day, 89 percent; third day, 91 percent.

In metered, overnight, 91; second day, 85; third day, 90.

In express mail, the composite figure there for the five different categories is 94.3 percent. Service performance, when you look back over the past 5 years, is as strong as it has been throughout that timeframe. I don't want to say it's at an all time high, but if you compare it to just 1 year ago, we are either equal to or above that performance. That was during the month of August. We had a slippage during the months of January and February, but that has gradually been built up. I am pleased to say that it has not been built up, but it is continuing to build now.

[The information referred to follows:]

FIRST CLASS

	Stamped			Metered		
	1 day	2 day	3 day	1 day	2 day	3 day
A/P 04	94	74	77	89	73	76
A/P 13	96	88	90	91	85	89

PARCEL POST

	Intra-BMC	Inter-BMC
A/P 04	73	51
A/P 13	79	57

PRIORITY

	Stamped		Metered		Combined	
	1 day	2 day	1 day	2 day	1 day	2 day
A/P 05	81	63	70	58	71	38
A/P 13	88	78	77	71	78	72

SERVICE PERFORMANCE—A/P 13

The final accounting period of Fiscal Year 1985 witnessed marked improvement and a continuation of the upward trend since Accounting Period 4 when heavy volumes, harsh winter weather, and changes in airline scheduling severely impacted service for all classes of mail. Since that time, First-Class Mail performance has risen two points for all overnight committed mail and thirteen points for both two- and three-day service. Parcel Post, although not affected by air transport problems, also improved over this same time period because of increased management attention in the areas of mail processing and transportation, climbing six points. The Postal Service began measuring Priority Mail service performance on an accounting period basis in Accounting Period 5. Although there is much room for improvement in this sub-class of First-Class Mail—the Postal Service is working on that—overnight Priority Mail service has risen seven points in eight accounting periods while two-day service has gained fourteen points.

Senator STEVENS. Prior to your coming back to Washington, we had a tremendous battle about ZIP+4 in the Congress. Thankfully, we were able to forestall a prohibition against changing that concept.

You have related it now to automation. Can you tell us where the automation program stands now?

Mr. CARLIN. Yes. Phase 1 of our automation program was completed on time and came in under budget. In that phase, we purchased and installed 250 optical character readers which can read seven or eight letters a second, and in reading them, spray on a bar code.

We bought 250 of those and 248 bar code sorters. That has been completed. In phase 2, we will be accepting delivery of more sophisticated machines which will essentially do some of the same things. Delivery of those pieces of equipment will begin in October 1985 and will be completed in 1988.

There are 403 optical character readers in that phase and 452 bar code sorters.

In phase 3 which is just now beginning, we have let two contracts to test multiline machines which read more than the bottom line of an address.

Depending on the type of machine, we will purchase either 250 single transport machines or 125 dual transport machines. We may also have a contract for the conversion of the phase 2 machines—that is, the 403 optical character readers—from single-line reading to multiline reading capability.

Senator STEVENS. I notice that many of our colleagues in the Congress don't use the nine digits. How many customers really are using the nine digits now? Do you have any figures on that?

Mr. CARLIN. Yes, I do. We have 1,220 very, very large commercial customers who are using it and nearly 1,400 who are committed to using it.

Our volume—which is probably a better way to look at it—during fiscal year 1985 will be 6 billion pieces. We estimated that, and that is up from 2 billion pieces in fiscal year 1984.

Our fiscal year 1986 volume estimate is 10.3 billion pieces. Let me make one comment here since this deserves further elaboration. As we look at the growth rate of ZIP+4 and we compare that to the growth rate of presort or the growth rate of express mail, we find that ZIP+4 is just slightly ahead of their growth rate.

Senator STEVENS. What is your gross rate again? We are up to 6 billion pieces this year?

Mr. CARLIN. Six billion pieces in fiscal year 1985 is correct.

Senator GORE. What was it 1 year earlier?

Mr. CARLIN. Two billion pieces.

Senator GORE. If the chairman would yield just briefly, it tripled in 1 year? Am I hearing you correctly?

Mr. CARLIN. You are hearing me correctly, yes.

Senator GORE. The volume of mail?

Mr. CARLIN. The volume of mail that bears the ZIP+4 code was 2 billion pieces in fiscal year 1984.

Senator GORE. I'm sorry.

Mr. CARLIN. This year's volume will be 6 billion pieces. It looks like a learning curve kind of a process as more people begin converting. There are a lot of firms doing this that will increase the volume. We see that volume next year at 10 billion pieces.

Senator STEVENS. As I understand these multiple line readers, they are really to assist the Postal Service with the mail that was not given the nine digits when it was prepared, is that right?

Mr. CARLIN. That is correct. The most efficient way, obviously, is for us to have ZIP+4 coded mail, and we are going to continue to encourage mailers to use ZIP+4 codes. Even with the multiline reader, it is more efficiently handled when the ZIP+4 code is on there.

For that mail which does not have a ZIP+4 code on it, what the optical character reader does is read from the bottom line up until it can, in effect, reconstruct a ZIP+4 code. There are limitations to the size of the directories. What this means is that if the mail originates, say, here in Washington, DC and is going to Seattle, WA, for example, and that code is not on there, we will have to run it by a

second optical character reader once it gets to the office of destination.

Nonetheless, it helps fill a gap until the time when we get widespread usage of ZIP+4 by all of our mailers.

Senator STEVENS. What are we doing to try and encourage more mailers to use the nine digits?

Mr. CARLIN. Management will be going back to the Board and seeking permission to file for a greater rate incentive sometime this fall. We are looking at either November or December to make that recommendation to the Board. That filing would go to the Postal Rate Commission proposing a rate increase.

We have also temporarily permitted unlimited commingling. We have been allowing this on a 1-year basis, which will continue until, I believe, March or April of 1986.

We are continuing to study requiring only three-digit presorting of ZIP+4 mail. Then we also provide an awful lot of file conversion assistance.

Senator STEVENS. I was one that had great hopes for ECOM, and I know the Postal Service has decided to divest itself of the ECOM concept. You had an offer, I understand, for the equipment you had, the system that you had started to set up.

But you didn't sell it. Does that indicate your Board and your Service changed their minds about ECOM?

Mr. CARLIN. The system wasn't paying its way, and as far as we could see looking out into the future, it was not likely to. That is what led to the decision by the Board to divest itself of ECOM.

Yes, we did get an offer. In fact, we had a series of discussions with a variety of organizations that were interested in acquiring ECOM. But when all was said and done, we did not get an offer which was financially attractive enough for that. We looked at a lot of considerations and it just wasn't financially attractive enough for the Postal Service. That is when we made the decision to shut it down.

Actually, we announced the decision to terminate it in June, and then in September, I believe September 3, it was shut down.

We are now in the process of selling that hardware and making the software available for the cost of reproduction. We gave an awful lot of consideration to the firms which responded and expressed some interest and had extensive discussion and dialog with all of those firms. What it all came down to was that the offers that we had were not financially attractive. Some businesses chose not to make a firm offer.

Senator STEVENS. But you are still committed to divest yourselves of ECOM, is that right?

Mr. CARLIN. Yes, we are, sir. We are in the process of selling that hardware that we have spread throughout the organization. I believe it is 20 or 26 sites.

Senator STEVENS. We have been trying to deal with the whole subject of revenue forgone to determine what should be a national policy with regard to assistance to the nonprofit mailers to meet their cost of mailings. I had a meeting recently with some of the nonprofit groups, the National Federation of Blind and the Nonprofit Mailers Federation.

55-505 O - 86 - 2

They asserted that the Postal Service overallocates institutional costs to nonprofit and preferred rate mailers by failing to take into account some of the values of the mailings. I am sure you have heard similar comments.

What is your response to those comments?

Mr. CARLIN. The Postal Reorganization Act clearly defines the methodology to be followed, and the Postal Service and Postal Rate Commission have consistently followed this methodology since the time of postal reorganization.

In essence, the act defines revenue forgone as the difference between the revenues that are paid by the nonprofit and preferred rate mailers, whatever that might be, and what revenues would be paid if there were no such thing as a nonprofit or preferred rate mailer.

In other words, the gap between the nonprofit and regular rate mailers. We have consistently followed that direction.

Senator STEVENS. We don't have a consistent policy of allocating institutional costs first to the nonprofit and preferred rate mailers?

Mr. CARLIN. Let me ask Bill Cummings, our Senior Assistant Postmaster General, for some help on these answers.

Senator STEVENS. Yes, Mr. Cummings, come and join us.

Mr. CUMMINGS. No, Mr. Chairman. That is not correct.

Senator STEVENS. These people assert that the revenue forgone costs would not be as high if they had the same allocation method that the nonsubsidized mail has.

Mr. CUMMINGS. As I understand the argument, Mr. Chairman, they are asserting, in essence, that the directly attributable costs and the rate paid by commercial mailers result in a cost coverage that is higher for them, the nonprofit mailers, than some other classes of mail.

That is not the way the rates for nonprofit mailers are set. In the actual cost coverage, looking at it that way, there is a fallout in the way we go about doing all our costing. It is kind of a complicated and intricate system that we are involved in, along with the Postal Rate Commission. I think Mr. Carlin is exactly correct when he says that the way that we actually set the rates for nonprofit mailers has been consistently followed and is consistently in line with the Postal Reorganization Act.

Mr. CARLIN. I would think that if the decision is that it should be changed, the appropriate time to make that change would be when an omnibus rate case is pending before the Rate Commission so that it can be looked at along with all of the other factors.

Senator STEVENS. Yesterday, as we marked up the reconciliation bill in the full committee, I had proposed that political parties no longer be considered eligible for nonprofit mailing status for fund raising. Apparently I lost that amendment by one vote.

Do you have any indication as to the growth of mailings? Do you categorize those mailings by the various groups that have nonprofit status now? Is it possible to determine how much the political mailings have increased in the last years?

Mr. CUMMINGS. Yes. We can provide that information for the record. It has not been unusual. It has been in line with the other mail classes. In terms of the third-class mail increase, it has not been significantly different from third class as a whole.

Mr. CARLIN. This is in a timeframe when you have seen explosive growth in third class. As you recall, fiscal year 1984 was almost 18 percent in that year alone.

Senator STEVENS. But is it possible to determine how much the taxpayers are subsidizing the political parties in that revenue forgone category?

Mr. CARLIN. We would be happy to calculate that information and supply it for the record.

Senator STEVENS. I would be pleased if you would.

[The information referred to follows:]

POLITICAL COMMITTEE MAILINGS

The normal postal data systems do not monitor the contents or senders of mail within classifications. Consequently, the Postal Service cannot determine the volume of third-class nonprofit mail that was sent by authorized political committees during the past three fiscal years.

However, based on a special survey of qualified political committees, the Service has developed estimates of third-class nonprofit mailings in Fiscal Year 1986 by authorized political committees. If the phasing schedule were to be maintained and preferred rates were advanced to step 15 on July 6, 1986, political mailings would receive a subsidy of $14 million. That subsidy is approximately 1.4 percent of the total full funding revenue forgone requirement before a reconciliation adjustment for a prior year is made. Assuming step 16 rates were in place for the entire fiscal year, the subsidy would be $11 million which is also 1.4 percent of the revenue forgone requirement at step 16 before the reconciliation adjustment is made.

Senator STEVENS. I have one last question, and that pertains to the action I took the other day, in terms of the Treasury and Postal Service appropriations bill and the Postal Board's implementing a postal rate increase for recipients of the revenue forgone appropriations.

It is my understanding that would have been a two-step increase that would go into effect on October 1. At the meeting that I mentioned previously, all of the groups argued that they were prepared for their fall fund-raising activity, particularly during the Thanksgiving and Christmas period, and that they would face extraordinary costs to convert to this new system and asked that there be a 3-month delay.

The Senate agreed with me and has now delayed that increase by 3 months. In the reconciliation bill, we tightened up eligibility for nonprofit revenue forgone subsidies in order to compensate for approximately $70 million in additional cost.

You and I had a conversation before this. The Board, I understand, is not too happy about this action, but the increase is not going to go into effect on October 1, is it, if this bill passes?

Mr. CARLIN. As I understood the action taken by the Senate yesterday, it was originally to appropriate the $801 million and then reduce the amount by 2 percent which would make that figure $785 million.

As you recall, if the figure which was to be appropriated was $749 million, that would have moved the preferred rate and nonprofit mailers to step 16. The Board of Governors will be in town on Sunday and Monday this week, which is fortuitous timing, and it is for them to make that determination. I will be prepared to implement that determination immediately.

Senator STEVENS. I hope that they are clear, and I am sure I am going to be meeting with them, too, but I hope they are clear about

the fact that we did tighten up eligibility so that the 3-month delay is paid for by decreasing the number of entities eligible for that revenue forgone category.

As I said, I failed in being able to deny that category to the political parties. I don't know whether it is going to come up again, but the committee voted against my amendment to do that. Political parties have only been accorded that revenue forgone category since about 1978.

Many of the entities that have been in being literally almost since the beginning of the whole concept of postal subsidies—the National Federation of the Blind and the Girl Scouts and Boy Scouts and Campfire Girls and Red Cross—all of those will face exhorbitant, in my opinion, increases unless there is a reduction in the number of entities eligible for that revenue forgone category.

I personally do not believe that political parties, in this period of time, should be receiving a subsidy from the taxpayers on their fund-raising mailings.

I know you don't want to get involved in that policy decision. [Laughter.] But that is my feeling. I don't know whether the Congress is going to agree to it, because we are all made up of people who are all benefiting from those revenue forgone mailings.

In my judgment, it will be unfortunate if the Girl Scouts and the Boy Scouts and the Red Cross have to pay additional increases because Congress decides to limit revenue forgone but refuses to take its own political fund-raising mechanisms out of this entitlement category.

I also would like to discuss with you later the whole question of whether or not an entity such as yours, which as I said would be No. 2 in the private sector if it were totally a private business, should not have a portion of its revenues dedicated to what amounts to a charitable service. In other words, I think it is time, now, that we consider whether the ratepayers should be paying a portion of the revenue forgone, just as the ratepayers of AT&T pay a portion of their yearly charitable contributions. In AT&T's instance, because the charitable contributions are deductible, the cost is borne by both the people who pay the AT&T rates and the taxpayers.

In your instance, since you are not involved in a tax situation, the taxpayers should continue to provide a portion of the revenue forgone, but so should the ratepayers, so you should be in equivalent status as far as the entities of your size in our economy. But that is another subject. I think we will have to have some hearings on it.

I would like to submit, for the record, a few additional questions of mine plus some that have been provided by Senator Heinz concerning the local delivery vehicle fleet. I would appreciate it if you would answer them for the record.

Mr. CARLIN. I would be happy to respond to them. May I clarify one thing as far as the Governors are concerned from our conversation earlier. It is not that they are unhappy. They look forward to having some discussion with you about that matter when that opportunity arises.

Senator STEVENS. I probably should not have used the word unhappy. I think they are unclear, really, about the impact of the

action we took yesterday with regard to the cost of the 3-month delay.

Mr. CARLIN. We were well aware of the dollar impact. I don't know that we are fully aware of the implications of the shrinking of the number of eligibile groups.

This happened too fast. I am waiting on this one. I would think that we could not take immediate action on that until those limitations actually become law.

Senator STEVENS. That is correct, but we expect to have that bill out of conference rather quickly.

Senator Gore? I took a long time. I'm sorry. It happens only once a year.

Senator GORE. I understand. It is a large subject, Mr. Chairman. I am very patient. I found your interchange quite interesting.

I would like to request that the Chief Postal Inspector, Charles Clauson, join Mr. Carlin at the witness table.

Senator STEVENS. Nice to see you again, Charles. Happy to have you with us.

Senator GORE. The first questions I want to ask will be based on a report prepared earlier this year, a few months ago, by the Fraud and Prohibited Mailings Advisory Group. It is dated April 19, 1985.

Before I get into the questions, I want to clarify something about the report itself. I made some statements about it earlier this year when it came out, because I was very concerned about the conclusions in this report.

Senator Eagleton was also concerned. Mr. Clauson, you wrote a letter to Senator Eagleton dated July 15, 1985, and you made some statements about this report. I want to quote from your letter to Senator Eagleton, which puts the word "report" in quotation marks as if you don't really think it is a report. You say it was written by four members of a newly formed fraud advisory group. It was one side of a complex policy discussion, and the report was ultimately not adopted by the group as a whole when discussed at a later meeting.

It was not within the power of the four inspectors who wrote the report to speak for all fraud inspectors or even the fraud advisory group and, in fact, they did not intend to do so. End quote.

Mr. Clauson, my staff and I talked with the head of this advisory group, Mr. W.S. Huggins, and he told us this is a report of the advisory group. We talked with the members of the group. They said it is a report of the advisory group.

The letter of transmittal says, "Herewith is our report," signed by the head of the group, Mr. Huggins. But before I get into the details of the report, let me ask you a question about your letter to Senator Eagleton. Was it in error?

Mr. CLAUSON. It was not in error in that the rest of the members of the group had not seen the letter, the report when it went out. Inspector Huggins called us immediately after you spoke to him on Wednesday and reported a discussion with you. He said that it was a report of the four people there and that they tried to capsulize the ideas that were brought up during the meeting, but it was not circulated or whatever before it was sent in.

We ask these groups to send in their recommendations and their ideas after they meet, and the purpose of that is to raise issues. We are interested in what they think and feel.

Senator GORE. All right, Mr. Clauson, there is a sharp discrepancy between what you are telling me and what the head of this group told me. He says it is a report of the group and reflects the opinions of the group. The members of the group have told me the same thing, that it represents the views of your advisory group. Now, if you don't like the conclusions of your advisory group, that is one thing.

But do not claim that it is not the report of your advisory group when your advisory group says it is their report.

Mr. CLAUSON. No, it is the report of the advisory group, but it was not circulated after it was written by the four inspectors.

Senator GORE. They have all seen it.

Mr. CLAUSON. Since that time. We have had another meeting and there was a great deal of discussion about what is in here. We asked them to specify their recommendations and to get them back to us. That was in May. They have not done so yet. We are anxiously awaiting them.

The reason they haven't is that they don't want this information to get outside the Inspection Service. That is the feeling we got back from Mr. Huggins. We are concerned about that.

Senator GORE. You still seem to want to put the report in quotation marks as if it is not really a report.

Mr. CLAUSON. It is not a report that——

Senator GORE. You seem to want to denigrate the significance of the report, and you seem to be reluctant to accept criticism from your advisory group.

Mr. CLAUSON. I believe that Mr. Huggins told Mr. Jensen this was not criticism.

Senator GORE. That it was what?

Mr. CLAUSON. He told the assistant regional chief inspector in Chicago that he had told Mr. Jensen that it was not meant to be critical of Inspection Service management.

Senator GORE. OK. Let's just read from the report, then, on that point.

Mr. CLAUSON. I mean, what his comments were on Wednesday. It is the report of the advisory group. I am not arguing with it. It is the report. We have these groups in each one of our offices that——

Senator GORE. I just wanted to establish that. It is the report of your advisory group.

Mr. CARLIN. Senator.

Senator GORE. To that extent, the letter minimizing it that you sent to Senator Eagleton saying that it is not the report of the advisory group was in error?

Mr. CLAUSON. Well, I don't have that information with me, but that report was not circulated. It was intended to be the consensus of what was discussed by those four people. I don't know if——

Senator GORE. Was it intended to be a report of the advisory group?

Mr. CLAUSON. Of their discussions, a report of their discussions.

Senator GORE. Was it intended to be a report of the advisory group, yes or no?

Mr. CLAUSON. It was intended to be a reporting of what their discussions were.

Senator GORE. Was it intended to be a report of the advisory group?

Mr. CLAUSON. Based on how four people saw what went on in a meeting. They went to a certain location and wrote it. Maybe that is significant. I don't know.

Senator GORE. In my opinion, it is not. I am not going to pursue it, because I don't want to badger you.

But I am frustrated with your reluctance to say that it is what it is. It is a report of the advisory group.

Mr. CARLIN. Senator Gore, may I insert what we are trying to do here? The purpose of these meetings, these groups getting together, is an attempt on the part of the Inspection Service to have people serving on these advisory groups to give feedback to senior management, rather than having it filtered out through the chain of command, so they can hear directly what things can be done to improve the functioning of the organization.

Senator GORE. I understand, and I am sure the Postal Service is greatly embarrassed at the fact that their recommendations and analyses have been made public. I understand that fact.

Mr. CLAUSON. No, no; I'm not embarrassed by it.

Mr. CARLIN. I would submit that as we open up the organization, you are going to see more of those.

Senator GORE. Let me ask you, Mr. Clauson. Do you agree with the conclusion of your advisory committee here that "the Inspection Service image and our professional credibility is suffering from inappropriate program objectives and priorities and inaccurate methods of evaluating and allocating resources"?

Mr. CLAUSON. No, I do not.

Senator GORE. Why not?

Mr. CLAUSON. Because I don't think it is true. I don't think our professional image is suffering one bit in the Justice Department and other agencies with whom we deal. This report and the ideas in it are from the first meeting of a new group.

Many times, when these people get together for the first time, we encourage them to put forth their ideas as openly as they can without any regard to holding back and without thinking that we are going to retaliate against them.

There are a number of fraud inspectors in the Postal Inspection Service who think the Postal Service owns the Mail Fraud Statute. They think only the Postal Service should charge mail fraud. They think no other Federal agency can. They have been concerned that other investigators have charged mail fraud in their cases.

We are not in competition with the FBI. We are in partnership with the FBI. They charged 740 mail fraud cases last year, and we think that is great. I had a personal meeting with Ed Meese on that subject and we are going to pursue with the greatest intensity those cases where the use of the mails is an integral part of the scheme because of the Inspection Service's relationship with the Postal Service and our responsibilities. But we certainly do not intend that other people not charge it when our inspectors do.

That is where many of these ideas come from. I said we had a followup meeting in May. At that time, we had an opportunity to discuss this with these people in a very open manner. I have had to go back repeatedly to some of these individuals and tell them not to be concerned about the things brought up.

Senator GORE. All right. So you disagree with your advisory group's conclusion that the Inspection Service is suffering from inappropriate program objectives and priorities and inaccurate methods of allocating and evaluating resources? Do you disagree with your advisory group's conclusion that there has been "a dramatic decline in morale, an increase in frustration and cynicism, hindering the potential of the fraud program"?

Mr. CLAUSON. I disagree with that.

Senator GORE. You disagree with your advisory group on that also.

Do you agree or disagree with your advisory group's recommendation that "management stop giving away and/or not accepting jurisdictions and assume an aggressive attitude toward enforcing the mail fraud statute"?

Mr. CLAUSON. I disagree with that. The Postal Service, in 1986, will commit 15 percent more hours to mail fraud investigations than they did in 1978. The point that is being made here is that no other agency should work it, that only the Postal Service investigates it. I do not agree with that idea or that concept.

Senator GORE. Do you agree or disagree with your advisory group's finding that among the inspectors there is the perception that "the Inspection Service is withdrawing from its established role as front line Federal law enforcement agency"?

Mr. CLAUSON. I disagree with that. It is being cited as a perception. My last three meetings with the U.S. attorney advisory groups in the Justice Department indicated the Service is not withdrawing.

Senator GORE. You disagree that your own inspector team feels that way?

Mr. CLAUSON. Other than who wrote it, yes.

Senator GORE. It is not a mystery who wrote it.

Mr. CLAUSON. I do not believe this is a consensus of inspectors in any way.

Senator GORE. So you disagree with your advisory group on that, as well.

Do you believe that the Postal Service should solicit fraud complaints from the public?

Mr. CLAUSON. Absolutely.

Senator GORE. You do?

Mr. CLAUSON. Solicit, if your definition of solicit is to make known that we are——

Senator GORE. Yes.

Mr. CLAUSON [continuing]. Are here to investigate cases, yes, I do.

Senator GORE. Are you still behind the McGruff program, the cute little dog that dressed like Sherlock Holmes?

Mr. CLAUSON. You are talking about the national crime prevention idea. Yes, I am.

Senator GORE. All right. Do you agree or disagree with your advisory group's conclusion, "The solicitation of complaints from the public at a time when we are not in a position to afford timely and responsive action can only result in distrust of the Inspection Service on the part of the public we are trying to serve. We are, in effect, borrowing a page from the book of some of the worst fraud promoters by creating a false hope"?

In their recommendations they say, "Muzzle McGruff. Shouldn't we stop soliciting complaints until we are prepared to handle them? Are we simply irritating victims more by inviting them to dinner and telling them when they arrive that the cupboard is bare?"

Do you agree or disagree with your advisory group's conclusions with respect to the solicitation of complaints from the public?

Mr. CLAUSON. No, I do not. No. That stems from a lot more than what is written right there. We began to advertise and run public service announcements on television in the last couple of years. It has generated a great deal more complaints than we had anticipated. We had trouble keeping track of them for awhile.

We didn't realize this could go up to a couple hundred thousand complaints a year, or inquiries. They are not always exactly complaints. We had to develop a computerized system to handle these things so people who wrote in again didn't get the same initial letter. That has taken some time. We have only, within the last 2 months, finalized development of the computerized system to track these things and to be able to respond intelligently to the customers and to their situations.

But I don't believe that the solution here is to ignore the public and what their concerns are with respect to mail fraud or mail order transactions.

Senator GORE. All right. You have stated your disagreement with your own advisory group's conclusions and recommendations in all of the areas that I have just mentioned.

Do you also disagree with their conclusion that there is a perception on the part of your inspectors and fraud specialists that "little or no consideration is given to the concerns and ideas of fraud specialists"?

Mr. CLAUSON. Well, the fact that an advisory group met and meets regularly on a quarterly basis, I think, speaks to that. We are concerned with those individuals. This was the first meeting of this group. We took their report, we met with them again. On the second go-around, once we got a chance to read this and explain some of the issues and talk about some of the issues, they had an entirely different approach.

There hasn't been a report written from that meeting yet for the very reason of what has happened with this one. I am having a hard time getting my inspectors to tell me these things because they don't want to be the subject and the center of these kinds of controversies.

Mr. CARLIN. I think it is important to point out that the establishment of the group was a management initiative.

Senator GORE. When they say there is a perception that little or no consideration is given to the concerns and ideas of fraud specialists, I don't think it is enough to respond to that by saying we re-

ceived your report. If you disagree with every one of their recommendations, if you disagree with all of their conclusions, then you are not giving much consideration to it.

Mr. CLAUSON. Let me speak to that. The gentleman who preceded this made some recommendations that were implemented. This group will make recommendations to be enacted. There are now no recommendations to be enacted on.

Senator GORE. What about muzzle McGruff?

Mr. CLAUSON. We think we have a response to that. Just because an inspector from Toledo comes in and says to muzzle McGruff doesn't mean management has to.

Senator GORE. It is not an inspector from Toledo; again, it is your own advisory group.

Mr. CLAUSON. It is an advisory group, but they are field inspectors. They are not familiar with all the thinking that has gone into a lot of these programs.

Senator GORE. It is interesting that corporate America is learning how to tap into the ideas of people who work on the assembly line.

Mr. CLAUSON. That is exactly——

Senator GORE. The new management techniques that are the most successful are the ones which recognize that the most important assets of any organization are the brains of the people working for that organization. I applaud your initiative in setting up advisory groups.

I am dismayed, however, by the fact that you disagree with every one of the conclusions and recommendations which I read from the advisory group's report. I think that there is something wrong. I know that you are relatively new, Mr. Clauson.

Mr. CLAUSON. That is true. That is true.

Senator GORE. So are you, Mr. Carlin. The policies which have led to this disaster, in my view, for the Postal Inspection Service were not designed by either one of you. They were in place when you took office.

You have an opportunity to separate yourselves from those policies without investing a lot of your own personal reputations in these failed policies. But coming into the organization, you seem to have been brought onboard and put in the position where you feel like you have got to defend it to the last. I think it is the wrong choice on the part of both of you.

Let's look, again, at the figures I cited earlier, all right? I know there are all kinds of technical responses for all this. But let's just look at the raw numbers.

Since these policies that have led to this disaster have been implemented, here is what has happened: Convictions have declined 73.8 percent. That is not the opinion of some inspector in Toledo.

Mr. CLAUSON. May I respond to that, Senator?

Senator GORE. Let me read some more, and then I will let you. Criminal investigations completed, those have declined 90 percent. I am told that there was a change in the definition of what constitutes a criminal investigation.

Mr. CLAUSON. True.

Senator GORE. I am also told that the number in fiscal year 1978 which forms the base of this comparison might be unduly large,

and the real statistic is that there is a 65-percent reduction in criminal investigations completed.

Let me see now. Burglary convictions, down 32.3 percent; mail fraud investigations completed, down 60 percent; convictions, down 53.4 percent; external mail thefts, convictions down 83.2 percent, even though complaints are up 30 percent; embezzlement investigations, down 24.1 percent.

Now, I am sure you have an explanation for this.

Mr. CLAUSON. I do.

Senator GORE. Just as I am sure that you have an explanation for why your own advisory group reviewing this situation says what it does. You don't agree with what your advisory group says about it. Tell me why you think that these disastrous statistics don't have much meaning.

Mr. CLAUSON. In the case of burglaries, the reason we don't have as many burglary statistics is because we have almost eliminated burglaries. We cannot make statistics where the crimes don't occur.

Senator GORE. Wait a minute. Let me hear this again, now.

Mr. CLAUSON. In the case of burglaries, in 1978 we had about 930 burglaries. In 1985, because of our prevention efforts, we had about 650.

Senator GORE. You had how many?

Mr. CLAUSON. About 650 in 1985. The year is not quite over.

Senator GORE. You are talking actual burglaries, right?

Mr. CLAUSON. That is what we investigated.

Senator GORE. So you are saying the reason convictions are down 32.3 percent is because the burglars have stopped committing burglaries?

Mr. CLAUSON. Senator Gore, our primary intention is to prevent burglaries, not to catch people after they have done them. We will catch them after they have done that when that is the only thing remaining. We have had a very aggressive approach to preventing burglaries, to preventing robberies, to preventing all the crimes that were possible to respond to.

In the case of burglaries, they are drastically down from what they were in 1978 and even more down from previous years. In the case of postal robberies, they are down significantly. As a matter of fact, this year, there will be less than 130 postal robberies in spite of the fact that we have hundreds of thousands of people on the streets with valuables on them every day.

That figure is down from over 200 in 1979, over 3,400 if you go back into the seventies. We respond to these kinds of crimes with a great deal of intensity. Physical attacks on postal employees are down. The number of reported mail thefts or mail losses by the general public, against our overall volume of express mail and fourth-class mail, is down.

We want to be measured by how we have dealt with problems, not by how many arrests we have made, because the figures I supplied Mr. Jensen earlier this week will show you what kind of arrests we made in 1978.

Senator GORE. They have convictions down 73.8 percent?

Mr. CLAUSON. Because the list of cases I provided Mr. Jensen this week gives you a good example of the kinds of convictions I am talking about. If you want me to go through some of them, I can.

Senator GORE. I want you to explain to me, in simple language if you could, why convictions are down 73.8 percent.

Mr. CLAUSON. From 1978?

Senator GORE. Yes.

Mr. CLAUSON. It is because of cases like this taken from the records in Chattanooga, the farmer. Five juveniles, age 18, 17, 16, 17, and 17, arrested by local police force; no involvement by the Inspection Service; 5 arrested claims, 5 convictions claims.

Senator GORE. I see. The Chattanooga office, where some of the inspectors who brought this to my attention were located, you are going to criticize them now?

Mr. CLAUSON. We had to dig out this information for Chattanooga because we were involved in the decision before 1980. I had all these cases from the seventies.

Senator GORE. So the inspectors who brought this to my attention are the reason why your convictions are down 73.8 percent?

Mr. CLAUSON. Senator, the reason the cases are down is we only claim convictions when we are involved in the case.

Senator GORE. That explains it, does it?

Mr. CLAUSON. Pretty much.

Senator GORE. Why are criminal investigations completed down 65 percent?

Mr. CLAUSON. I don't know where you got the 65-percent figure, but the number of investigations reported from 1978 includes complaints, not just——

Senator GORE. I adjusted for that. If you use the old figure, they are down 90 percent.

Mr. CLAUSON. What figure did you take out for the complaints?

Senator GORE. 45,000.

Mr. CLAUSON. It is not enough. It is three times that in terms of total.

Senator GORE. What is your figure for investigations completed in 1978?

Mr. CLAUSON. It is the figure that was reported. It just was figured differently.

Senator GORE. Let's take the lowest figure, 45,212. Why have——

Mr. CLAUSON. What does that represent?

Senator GORE. That represents the number of criminal investigations completed in FY78 if you recalculate using your new definition of what is a criminal investigation.

Mr. CLAUSON. I don't happen to have those with me, but 45,000——

Senator GORE. Why have criminal investigations completed gone down from 45,000 to 18,000?

Mr. CLAUSON. Unfortunately, I can't even speak to the 45, but the number of investigations have gone down some as a result of our concentrating on high impact crimes. When we have a case in Ohio where Postmaster Robb was kidnapped, raped, murdered and rolled out in a cornfield, it takes 40,000 hours to solve that case and make that arrest. That has an impact on other cases not being worked.

Senator GORE. I knew there was an explanation.

Why are narcotics investigations down 76 percent?

Mr. CLAUSON. Because in those days, narcotics convictions and arrests were a claim where we did nothing more than coordinate, control deliveries with customs. Our role now in narcotics investigations is much more substantial.

Senator GORE. Why are mail fraud investigations completed down 60 percent?

Mr. CLAUSON. I am not commenting on whether your figures are right, because I don't know where they have come from.

Senator GORE. Have you ever seen this?

Mr. CLAUSON. Yes; I have it right here.

Senator GORE. "The Digest of Activities of the United States Postal Inspection Service." It has a little picture of McGruff in here. The figures I have been using come from your own Digest of Activities.

Mr. CLAUSON. I have 1984. I don't happen to have 1978 here. Across the board, we have tried to focus on high impact Federal kinds of violations. In the area of fraud, we have tried to focus on cases where there is no local remedy, where we investigate con artists and fraud perpetrators in one district of the country who find victims in the other area of the country, where there is nobody locally who will respond to those kinds of situations.

Senator GORE. Why have external mail theft convictions gone down 83 percent?

Mr. CLAUSON. That is the one I was referring to right here. I can send you the same thing for fraud or any other area you want. Inspectors were basically statistics gatherers in many areas. I am not saying they didn't do good work, because they did do good work. But a lot of inflated figures were piggybacking on State, and local, and a lot of other Federal agencies. The reason that happens is when you say you are going to be measured by how many arrests you turn in, they will turn in the arrests.

Senator GORE. Why have you had so many of your most experienced investigators leave the Postal Inspection Service during this same 5-year period?

Mr. CLAUSON. The number of inspectors leaving the Inspection Service has not varied significantly.

Senator GORE. The number of senior experienced investigators. I think there has been a significant change there.

Mr. CLAUSON. There has not. I can provide you the numbers. We have averaged around a 6-percent attrition rate: 3 percent retired, 3 percent not retirement. Unfortunately, the senior, older people are the people who retire.

I am not saying that some people haven't left the Inspection Service because of being transferred or responding to mobility requirements because they have. But the increase has not been significant in terms of the percentage of inspectors.

Inspectors have, for many, many years taken jobs in the Postal Service for a variety of reasons, not the least of which is that they no longer felt they were mobile. We are a part of a very large organization with over 700,000 employees. Only 2,000 of those jobs require that people be mobile. Some regional postmaster generals are former inspectors, as are other officers in the Postal Service. There

are many, many managers in the field that are former inspectors who have made the decision to go into postal management. We applaud this and have no problem with it, thinking that we can contribute to the management team of the Postal Service. That percentage has not changed significantly. There are little bubbles in it that rise and fall, but there has not been any significant change.

[The information referred to follows:]

Attrition rate for postal inspectors for fiscal years 1980–85, Oct. 1 to Sept. 30

Years:	*Retirement/other*
1980	109
1981	135
1982	81
1983	108
1984	125
1985	84
Total	642

Senator GORE. Let me tell you what I think happened. You received some complaints in 1979 before either one of you were in your current position. You got the complaints in 1979 from New York City.

Mr. CLAUSON. Complaints?

Senator GORE. From the office, from your New York office in the Northeast region. That office felt they weren't getting enough senior inspectors in the Inspection Service, because the system that had developed over the years gave a little freedom to the top people after they had acquired some seniority to influence where they were going to be working, and a lot of them didn't want to go to New York City.

The Postal Service overreacted to the complaints of the New York City office and instituted a brand new, systemwide personnel policy called career paths, which forced the senior inspectors to be uprooted from where they were working, where their families were established, et cetera, and move to New York City and Los Angeles, Oakland and Miami, and so forth.

This caused a major disruption in the Postal Inspection Service. Many of the people left. There were a lot of forced transfers, a lot of disruptions in work patterns, and it has resulted in continuing bitter criticism from within the Postal Inspection Service. Simultaneously, you shifted your focus—and when I say you, I mean your predecessors—on another policy. You are, however, perilously close to endorsing all that they did. Your predecessors simultaneously changed the priorities for investigation by deemphasizing the kinds of postal crimes which occur in rural areas and smaller cities and shifting priorities toward the kinds of cases that the New York office was concerned about.

After 5 years of these two policies, you have the kinds of conclusions which I read you from your advisory group, which you explain away; and you have the kinds of statistics which I read you from your own Digest of Activities, which you also explain away.

I think the problem is not in the evidence I presented. I think the problem lies with the policies that have created this disaster. You have a proud history in the Postal Inspection Service. It has been known as one of the bet law enforcement agencies any-

where. That reputation has suffered dramatically, and you now have postal inspectors who were once proud of the Service saying among themselves, "We have got to do something. We are losing it."

Their superiors explain it away. You come before Congress and say, "There's no problem, it is just a little of this and a little of that."

There is a problem. Before you completely endorse everything your predecessors have done in this regard, I just hope that you will give some consideration to what your own people are telling you; some consideration to changing these policies.

Is there a chance of changing the career path policy?

Mr. CLAUSON. We have made a recent change in the career path policy that exempts people that were on board in the Postal Inspection Service prior to the time it was implemented and have not yet served in a major metropolitan city. We did that for three reasons, really. One, we now have a flow of people coming into the system that will ensure that we can respond to crimes in major metropolitan cities, not just New York, but all 14 of them. Two, we have come to a point now where at last, after 5 years, the staffing in the major metropolitan areas is equal in terms of experience with those in the nonmetropolitan areas.

The State of Tennessee has 47 postal inspectors located at four different locations with an average experience of over 10 years. We finally have come to a point where we have got something similar to that in New York City.

The third reason that we changed that is to try to get some of this behind us to make some of the changes that you are referring to and to strike out very similar problems that have existed.

You criticize heavily the Inspection Service's group administrative policy. The policy was designed to respond to a particular need, and that need was not only New York. We had postal employees being robbed. We had postal employees being assaulted. We had serious crimes, hijackings, other things going on that we could not respond to because all of our senior people with all of our training—the majority of them—were out in areas where these kinds of crimes were not occurring.

Our policy—I might just look at this piece of paper in front of me—is an attempt to balance the staffing needs of all divisions and yet provide a transfer policy that is fair and equitable to all agents. It says that new agents will normally be transferred to a small- or medium-sized office and will remain there for approximately 2 to 4 years.

Following this assignment, they will be routed to one of the 12 largest offices, where they will remain until qualifying for office of preference transfer.

I am reading to you from the FBI's transfer policy.

Senator GORE. I have heard that on the eve of this hearing, this policy might be changed. This is the first public announcement that you are changing the career path policy for those on board prior to 1980, and that includes all of the inspectors who are subject to being affected by this policy at the present time.

Mr. CLAUSON. By directive transfer.

Senator GORE. By directive transfer. I applaud that decision. I hope that you will reexamine its validity for those hired after 1980, as well. I hope you will also reexamine the policy on priorities, as has been recommended by your own advisory group, and stop giving the impression that the theft of the Social Security check from an elderly woman in Carthage, TN, doesn't matter to you.

Mr. CLAUSON. The Postmaster General and I discussed at some length, at the time that I became Chief Inspector, that we wanted to look at a lot of these things. We do. I want to point out in all fairness that the former Chief Inspector wanted to continue to look at all these policies and to review them.

I have recently discussed with the regional chief inspectors, and not as a part of this oversight hearing or any other hearings, but only as an ongoing review, giving local management more flexibility in responding to the kinds of things that occur locally. We think this is a national organization that has got to address national kinds of problems. So we think that the system of priorities is absolutely essential.

What we had before were inspectors, 1,800, 2,000 of them, all doing their own thing across the country. We don't think that is effective Federal law enforcement nor the purpose of Federal law enforcement.

Senator GORE. I am going to wrap up here. I appreciate the chairman's generosity with the time.

I would like to publicly thank Mrs. Patty Bell, wife of a former postal inspector, who brought this whole matter to my attention at one of the open meetings that we held in Tennessee. I would also like to thank Dennis Lewis, an inspector in Memphis, who was due to be transferred to Chicago even though if only 11 more days had passed, he would have been exempt from this transfer. This, I am told, was one among many elements which led to the change just in the last week that has been announced here publicly for the first time.

I want to conclude by assuring both of you of my desire to play a constructive role in encouraging a transition toward more sensible policies here. I sincerely believe that the Postal Inspection Service is in deep trouble and that it should be restored to its former status of excellence. It does good work now. I don't claim otherwise. There are a lot of dedicated people in it, and I am all for it. They are the ones who have been bringing this to my attention, their need for help, attention and common sense from their superiors.

I want to assure you that this is not a passing interest of mine, and to the extent that it matters to you, as the ranking member of this subcommittee on the Democratic side, I am going to maintain a very active interest and an elevated attention level on this issue until I am satisfied that it is back on track and that it is headed in the right direction again.

I appreciate your courtesy in responding to my questions, and Mr. Chairman, thank you.

Mr. CLAUSON. Could I make one further comment? I want to thank you, Senator Gore, for having Mr. Jensen come over and visit us. In the 5 years of the controversy that has revolved around these policies, Mr. Jensen is the first one to come over to try to un-

cover what the rest of the story is on these issues despite our repeated attempts to meet with people on some of these issues.

Senator GORE. You will get to know Mr. Jensen a little better. [Laughter.]

Mr. CLAUSON. I hope so.

Senator GORE. Thank you very much.

Senator STEVENS. Thank you very much, Senator, and I welcome your interest and Mr. Jensen's work in this area. We have a lot of things to cover.

My only comment would be that it appears that the budget process of the Postal Service has caused the Inspection Service to have been sort of given the short end of the stick here for a little while.

I know what you are doing, and I appreciate the fact that all portions of the Postal Service have to bear the cost of your efforts and apportion the cost of your program to reduce that deficit. But I hope that we don't overlook the fact that their challenge is really great. I know my colleague, Frank Murkowski, had some hearings up in Alaska concerning the work that the Service is doing in drug interdiction.

I agree with the Inspection Service that it is much better to concentrate our activities in trying to prevent those drugs getting through than it is to convict one or two of them.

Maybe I am an old prosecutor and realize how long it takes to convict someone. Meanwhile, the drugs keep coming through. When we go through law enforcement statistics for convictions rather than the statistics of reducing the flow of drugs, it seems to me that we would much rather see the drugs shut off than to have two or three costly trials and not really be able to stem the flow of the drugs. I think that the Inspection Service does need some additional funding, and I hope that occurs as the finances are straightened out down there.

You are doing an excellent job in that, Paul, you really are. We appreciate what you have done and your carrying on the work load of your predecessor in an exemplary way.

We hope you proceed further along in your deficit control mechanisms and that moneys available for the Inspection Service will be built back up again.

Mr. CARLIN. Mr. Chairman, may I make two comments? I think from a management perspective, the important thing is what do you measure. Do you measure activity, or do you measure results? We are trying to move to measuring actual results. The second point is that there have been changes made over the last few years in the Inspection Service, but the number of inspectors has remained about constant. Right?

Mr. CLAUSON. That is true. We have achieved cost savings in the Inspection Service that have primarily been in the areas of support functions. By automating clerical functions and so forth, we have been able to reduce over 300 positions during this decade and by installing mechanized access equipment in our major facilities, we have reduced the number of postal police officers.

But we have been fairly constant, with a slight increase in 1978, in the number of inspectors actually carrying on the mission.

Senator STEVENS. Very well. I, again, think it has been worthwhile that we did have the time for you to get your feet on the

ground as Postmaster General before we had this hearing. We will have to discuss the timing for the hearing next year. I think we probably would be better to have it after the first quarter, perhaps, and then the following year be able to have it as soon as we can after your annual report comes out in January.

Again, I congratulate you and the team that you are working with. They are doing a good job, and I believe that the system is working well. I am hopeful that our work with the Board of Governors will produce an even greater degree of cooperation between your office and the Board of Governors and the Postal Rate Commission.

I look forward to being with you again.

Mr. CARLIN. I think some of the initiatives you are providing will help in that process.

[Responses to written questions submitted by Senator Stevens and Senator Heinz follow:]

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY SENATOR STEVENS

Question 1. Have publications with editorial content similar to that of *Datapro Reports on Microcomputers* been granted second-class mailing privileges in the past? Does the Postal Service's preliminary action on *Datapro Reports on Microcomputers* reflect a change in Postal Service policy concerning the interpretation and implementation of 39 U.S.C. 3626(b)(1)(B) and the Postal Service's regulations under that section?

Question 2. Is it the Postal Service's position that publications such as *Datapro Reports on Microcomputers* are not devoted to "the dissemination of information of a public character, or . . . to literature, the sciences, arts or a special industry", the editorial content test for eligibility specified in former Section 4354(a)(4), the Domestic Mail Classification Schedule, and the Domestic Mail Manual? If so, please explain.

Question 3. Is it the Postal Service's position that the terms "law and public policy" used in Section 3626(b)(1)(B) establish a standard for Postal Service evaluation of the editorial content of publications issued in looseleaf format which is narrower or different than the general standards concerning the content of eligible publications set forth in former Section 4354(a)(4) and now embodied in the Domestic Mail Classification Schedule and the Postal Service's Domestic Mail Manual? If so, provide a detailed explanation of the reasons for this conclusion.

Question 4. Please provide an explanation of the revenue consequences to the Postal Service which would have ensued had the Postal Service granted the application for second-class mailing of *Datapro Reports on Microcomputers.*

Answer. While the Postal Service would like to answer each of the questions posed concerning the status of the application for second-class mailing privileges of *Datapro's* eligibility to mail at the second-class rate. This procedure will not be comate at this time. The publisher and the Postal Service are in the midst of a formal administrative review, provided for under Part 441 of the Domestic Mail Manual, of Datapro's eligibility to mail at the second-class rate. This procedure will not be complete until the publisher exercises the right to have the case heard by an administrative law judge, should that become necessary.

The Postal Service has reviewed additional information in support of the application for second-class mail privileges for *Datapro Reports on Microcomputers* and has upheld its previous ruling that the subject matter of this publication is not designed as part of a looseleaf reporting service concerning developments in the law or public policy. A letter of denial was mailed to the publishers on January 2, 1986, which stated that the Postal Service's ruling may be contested by filing an appeal petition with the Docket Clerk, U.S. Postal Service, within fifteen days of receipt of the denial.

RESPONSES TO WRITTEN QUESTIONS SUBMITTED BY SENATOR HEINZ

Question 1. Local delivery vehicles seem to be a crucial link in getting the mail delivered. I understand that you have an effort underway to upgrade your current fleet. Can you give me a status report?

Answer. At present, the Long Life Vehicle program is in the test and evaluation stage. Of the three competitors, only Grumman has, to date, successfully completed all of the tests. Poveco failed some of the tests, was removed from the testing, and protested this removal. Its protest was sustained and in late August, Poveco was put back on the test track. LTV-AMG has completed a portion of the required tests and when they were notified of problems, filed two protests which are now pending.

Based on the assumptions that protests will not further delay the process, that all competitors will successfully complete the testing, and that no further problems arise, the Postal Service hopes to issue a request for prices in February 1986 and receive price quotes one month later. Following analysis and preparation of a capital investment proposal in April and presentation of that proposal to the Board of Governors in June or July, the Postal Service would make a contract award shortly thereafter.

Question 2. Is the program in the existing capital budget?

Answer. The program is in the existing capital investment budget.

Question 3. By the original schedule to procure new, long life vehicles (LLV) the Board of Governors was to receive a recommendation for a contract award last July. Why has this contract not yet been awarded?

Answer. The program has been delayed by unseasonable weather at the test site, unscheduled maintenance activity by certain competitors, and legal issues embodied in protests submitted by the competitors.

Question 4. Is there going to be an LLV program?

Answer. The LLV program is currently proceeding, with a viable solicitation issued by the Postal Service followed by the Service's evaluation of the technical proposals submitted in response to that solicitation by three offerors.

Question 5. We understand that delays in obtaining new vehicles cost the Postal Service millions of dollars. Can you be more precise with a figure?

Answer. Delays cost the Postal Service in two ways. First, the Postal Service must forgo, for the time being, the benefits to be expected from the long life vehicle. These benefits forgone amount to $2.6 million per day. Secondly, there is the added daily cost of $234,560 to maintain the aging postal vehicle fleet.

Question 6. Is this cost going to be passed on to the ratepayers?

Answer. Yes, these extra costs will be borne by the ratepayers. The ratepayers will also be the beneficiaries of the cost savings realized when the program is operational.

Question 7. Does the Postal Service have an end date for this competition? I understand that 100,000 vehicles are vitally needed and there is a shortage at the current time.

Answer. As was indicated in the response to the first question, the Postal Service hopes to award a contract in the late Summer of 1986. This assumes that there are no further delays due to protests or technical problems.

Question 8. Is there some factor outside the current competition that causes you to allow this costly delay to continue?

Answer. It is not accurate to characterize the delays as caused by factors outside the current competition inasmuch as the delays are the result of the litigation of protests arising from the testing process.

Question 9. I understand that the LLV competition has produced *one* qualified vehicle. This being so, what is the justification for the current delay?

Answer. Inasmuch as the testing of competing vehicles continues, the possibility still exists that more than one vehicle will qualify.

Question 10. I understand that Grumman completed the durability test on April 28, 1985 and has been so officially informed. Can you state the failures on the two vehicles that have caused the lengthy delay in the completion of the tests?

Answer. The Poveco vehicle originally failed to meet the minimum fuel economy and maintenance accessibility requirements specified in the Postal Service's solicitation. The firm was notified of its technical noncompliance, prompting a protest which was sustained by the Postal Service's Law Department. The time required to decide the protest and the negotiations for the return of the Poveco vehicle to the test track have accounted for most of the delay. The LTV-AMG vehicle suffered a cracked frame, broken front suspension, and steering component and cooling system support problems. The installation of a new frame and the time required to litigate their protests have delayed their completion of the durability tests.

Question 11. Will you stick to your requirements of the procurement and issue a request for cost only to the competitors that pass all of the necessary requirements?

Answer. Yes.

Question 12. Are you proposing to spend the additional time to allow the unsuccessful contractors to redesign their vehicles and then retest? Won't the cost of the delay overshadow the cost of the procurement? Have you estimated this?

Answer. The solicitation, which applies to all offerors in the same manner, specifically allows an offeror to repair up to five failed components during the durability phase of the testing. Following such a replacement, the unit replaced must complete a full durability test of 24,000 miles. The costs associated with delay in the program were discussed earlier.

Question 13. How can you ask for a bid on a vehicle proven to be deficient? Why don't you just tell them they failed to qualify?

Answer. Bids will be requested only from those offerors whose vehicles successfully complete the test and evaluation stage in accordance with the requirements in the solicitations.

Question 14. How do you know that you can't negotiate an acceptable price with Grumman?

Answer. Any discussion of price negotiation with a single offeror would be inappropriate since the testing and evaluation stage has not been completed.

Senator STEVENS. Thank you very much.

The committee will now recess.

[Whereupon, at 12:14 p.m., the committee recessed, to reconvene subject to the call of the Chair.]